CREDIT SUISSE

INVESTMENT SOLUTIONS & PRODUCTS

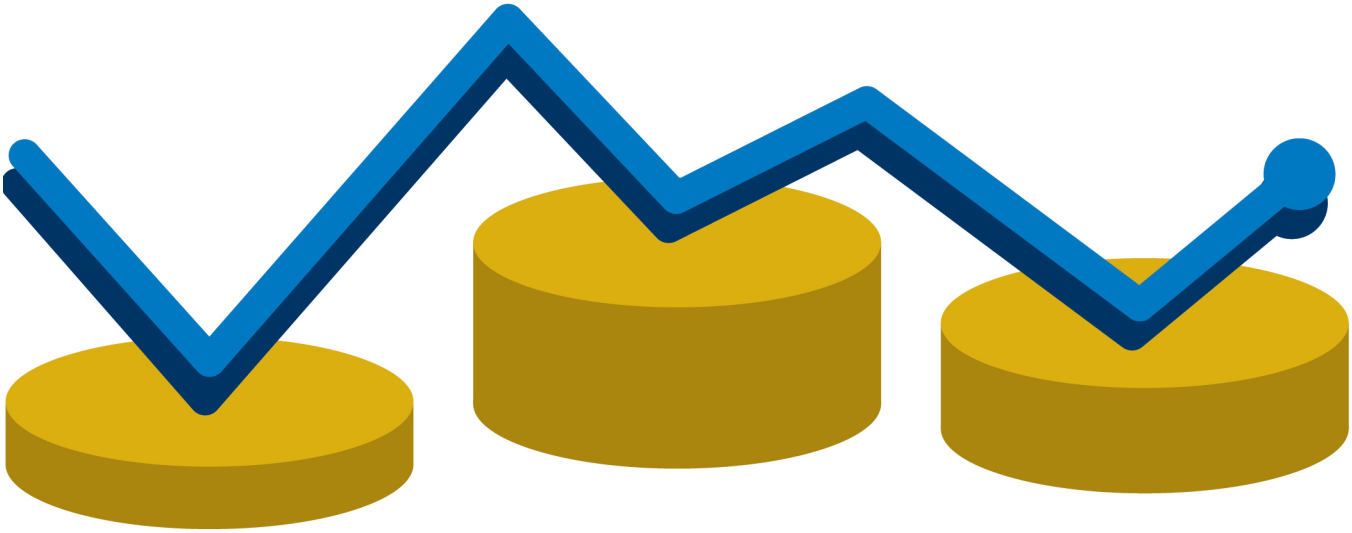
Trends Institutional Monthly

Swiss edition, 20/02/2017

Special focus

Fixed income strategies to strengthen your portfolio

page 7



Editorial

Nannette Hechler-Fayd'herbe
Head of Global Investment Strategy

Robert J Parker
Head of Strategic Advisory

Most economic data since the beginning of 2017 has shown a clear uptrend in activity and demand, and in the USA, investor focus is concentrated on the possible easing of fiscal policy. Specifically, there are high expectations of a reduction in corporate taxation, and an increase in infrastructure spending. Consequently, and assuming an upturn in inflation, monetary policy is likely to be tightened, not just by the US Federal Reserve raising interest rates, but also by some possible shrinkage in its balance sheet. Therefore, the trend in bond yields is likely to show an increase over 2017, implying that, apart from short-term trading rallies, portfolio positioning in fixed income should focus on short duration and credit spread strategies. We address alternative ideas in what could be a difficult environment. Separately, in real estate markets, one significant change is the impact that online retailing is having on the commercial retail sector, and on distribution and warehousing. We think that this change represents a range of interesting opportunities. Finally, in our section on "Food for thought," we have covered a number of longer-term trends, and we hope that these ideas will be thought-provoking and add value to client investment portfolios.

New magazine from Credit Suisse Asset Management

Scope, the new magazine from Credit Suisse Asset Management, will replace Trends Institutional Monthly, and focus on innovation, development and performance in asset management.

Scope will be published quarterly, as an e-paper for tablets and as a print edition, with the first issue coming in April 2017. Recipients of Trends Institutional Monthly will automatically receive the new publication as an e-paper.

In this issue

Editorial deadline: 20 February 2017

Investment strategy and asset allocation

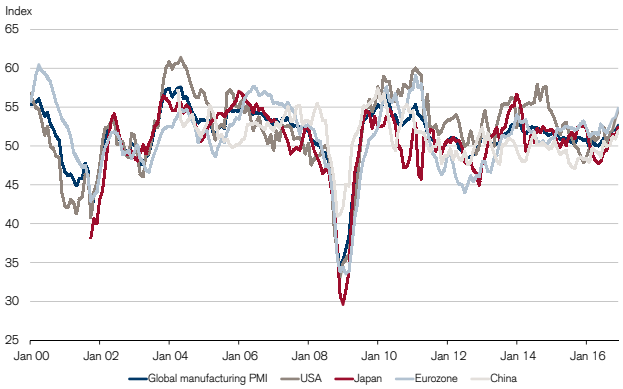
Balancing opportunities and political challenges

- Robust growth is supporting financial markets, but equity valuations are extended. We are maintaining a neutral view on global equities, favoring Switzerland and Australia in terms of regions, and healthcare in sectors.
- In fixed income, we are focusing on sources of carry, and prefer investment-grade (including financial), emerging-market and convertibles bonds over government debt.

Florence Lombardo
Investment Strategist – Chief Investment Office Switzerland

Financial markets continue to be supported by the macroeconomic environment. Global growth momentum remains strong, and leading indicators such as PMIs are firmly in expansion territory, without showing signs of further improvement. US policy decisions will play an important role in the future growth path, with downside risks should significant protectionist measures be implemented. This, however, appears rather unlikely in our view. As a result, we expect overall growth to remain robust in the coming month, supported by stable commodity prices and loose monetary policies in many important economies. In the USA, the labor market is strong, but still showing some signs of slack, and therefore there is only moderate wage pressure. As a result, the US Federal Reserve (Fed) should remain on hold for the time being. Our main scenario still foresees two 25-bp hikes this year, in June and December, although risks are tilted towards a faster hiking path. In Europe, the economic recovery is continuing, supported by a weaker EUR. While the European Central Bank (ECB) is expected to pursue its asset purchase program until year-end, with Europe's busy political agenda, rising inflation will increasingly raise questions about the ECB's policy beyond that horizon. Moderate economic growth in Switzerland, coupled with low (but positive) inflation in 2017, should keep the Swiss National Bank (SNB) accommodative. Nevertheless, we believe that the SNB will be less active in the FX market compared to previous years.

Improving economic leading indicators
Global PMI comparison



Source: Datastream, PMIPremium, Credit Suisse / IDC

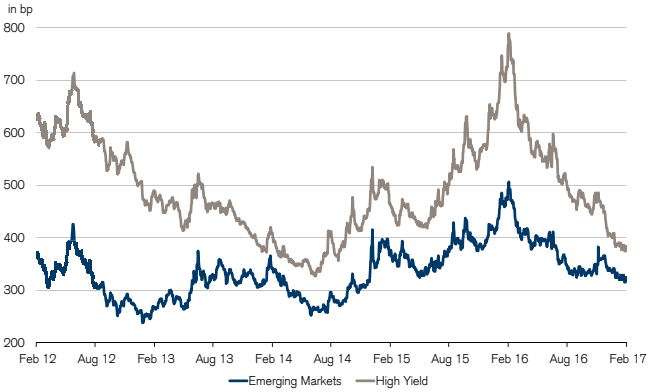
Fixed income

Within an overall neutral stance on fixed income, the Credit Suisse Investment Committee has turned cautious on government bonds. Following strong upward moves in Q4 2016 and going into this year, government bond yields have retraced lately. In light of the solid macroeconomic environment and recovering inflation, we expect the Fed to pursue its rate normalization process. Moreover, improving growth and inflation data in the Eurozone might focus investors' attention on the timing and extent of ECB tapering. We therefore see the risk for a repricing in government bond yields. Alongside our Underperform view on German bunds, we have now also moved the closely-related and low-yielding Swiss Eidgenossen to Underperform. On the other hand, we expect UK gilts to outperform, as inflation expectations have likely peaked, and have also raise Australian bonds to Outperform due to their attractive carry.

To enhance return, we still favor credit over duration risk. We have turned constructive on investment-grade corporate bonds, as they offer some yield pick-up, the demand for the asset class remains strong, and credit fundamentals are improving. We also favor financial credits, particularly subordinated debt in Europe for valuation reasons, and additionally because we see the potential for some loosening of post-financial crisis regulations. Furthermore, we view convertible bonds as an important portfolio-diversifier. While the outperformance

of the asset class in recent weeks has reduced its valuation advantage, momentum suggests further outperformance. In higher-yielding credits, we continue to expect an outperformance of emerging-market (EM) sovereign debt (in both hard and local currency) versus high-yields, as spreads have tightened significantly for the latter. Fundamentals in EM remain sound and valuation attractive, in our view.

Credit spreads of high-yield and emerging-market bonds vs. US treasuries



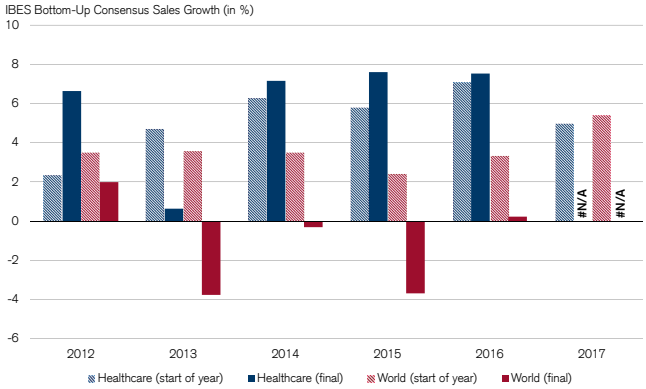
Source: Bloomberg, Credit Suisse / IDC

Equities

In light of the robust economic environment and positive market sentiment, equity indices have moved higher into expensive territory. The rally, however, seems to be losing steam. The Credit Suisse Investment Committee is maintaining a neutral view on global equities, implying a portfolio allocation in line with strategic quotas. The Q4 2016 reporting season has so far confirmed the improvements in earnings growth already witnessed in Q3. However, in our view, earnings growth expectations for 2017 remain on the optimistic side.

In terms of our intra-equity strategy, Switzerland remains one of our preferred regions. The Swiss market is one of the most attractive in terms of relative valuations. It should benefit from its strong exposure to the healthcare sector, which shows strong fundamentals, with long-term growth drivers such as an aging population, and growing demand from the emerging-market middle class, leading to high sales growth. Swiss equities should also benefit from currency developments, as we expect the CHF to weaken against the USD. Alongside Switzerland, we also expect an outperformance of Australian equities, which are attractively valued and benefit from the economic stabilization in China. On the other hand, we are cautious on Japanese equities, given our anticipation of JPY strength. Japanese equities have also run ahead of fundamentals, in our view. In emerging markets (neutral overall), we no longer hold a preference for the Asian region, given the uncertainty related to US trade policy, though we still expect Chinese equities to outperform.

Healthcare IBES bottom-up consensus sales growth



Source: Datastream, Credit Suisse / IDC

We are taking a more defensive stance in our sector strategy, and have closed our Outperform view on IT. The sector still displays solid growth potential from a longer-term perspective, but it deteriorated following its Outperform valuation, and a strengthening USD would be a headwind, given the high export share of US companies (which represent roughly 85% of the global IT sector). We have also closed our Underperform view on consumer staples, following the underperformance over the past six months. Healthcare therefore remains our favored sector, and industrials our least preferred.

Alternative investments

Following a difficult 2016, the outlook for hedge funds has improved., and we expect 3%–5% total return for the hedge fund index this year. This improvement is underpinned by better economic growth prospects and liquidity, as well as low volatility. Moreover, diverging monetary policies have increased the opportunity set for hedge fund managers. After holding a conservative style selection last year, we recently became more constructive on equity long/short (while favoring low net market exposure), alongside equity-market-neutral strategies. We also see good opportunities in merger arbitrage, fixed income and global macro. As well as hedge funds, and for long-term investors who can tolerate illiquidity risk, we recommend an allocation to private equity, as the asset class can help improve the risk/return profile of the portfolio.

In the commodity space, we currently hold a neutral view across the board, as the physical markets continue to rebalance. Oil has been moving in a trading range since early December, tied between prospects of OPEC oil production cuts and US shale production, responding to higher prices. Gold has performed well so far this year, moving close to our 12M target of USD 1250, but further upside appears limited, as rising US real yields would weigh on precious metals.

Gold price and real interest rates

Source: Bloomberg, Datastream, Credit Suisse / IDC

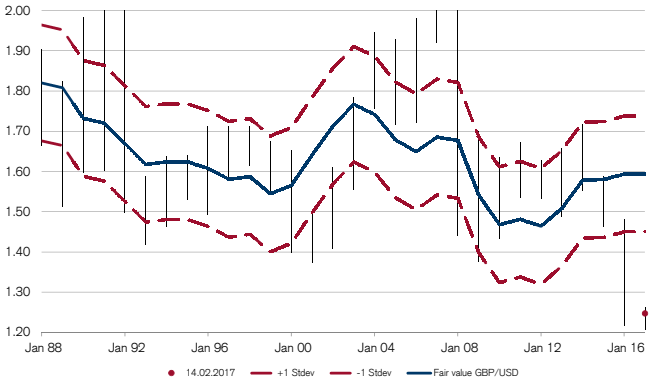
In real estate, we no longer expect UK equities to underperform, despite Brexit-related uncertainty, as valuations are attractive. We now also expect Japanese real estate equities to trade in-line with global REITs, as fundamentals and valuation have deteriorated. In Swiss listed real estate, we maintain a preference for funds over equities, as for the latter, premiums-above net asset value remain significantly above historical average.

Currencies

January was characterized by USD weakness, following a rapid period of appreciation after the US elections. Since the beginning of the month however, the greenback has resumed its upward trend, which we expect to last, on the back of supportive US monetary and fiscal policy. We hold a positive view on the USD vs. the EUR, the CHF and the CAD. Movements in the EUR are also likely to be shaped by news on the political front, with election uncertainty being a drag. We continue to expect EUR/CHF to trade range-bound, but note that the SNB is likely to reduce FX interventions, and tolerate a somewhat lower EUR/CHF this year, should the CHF depreciate against the USD as we expect. Despite our neutral view, we recommend that Swiss investors hedge EUR downside risks.

We have recently turned positive on GBP/USD, as the GBP is trading significantly below fair-value. The rate spread between UK and US yields has recently stabilized, and there could be triggers for a rebound coming from the political or the macroeconomic side, in our view. The Bank of England has indeed signaled little tolerance for overshooting inflation, and might therefore turn more hawkish in the months ahead. Japan has a strong current account surplus, the JPY is also undervalued, and its safe-have characteristic makes the currency attractive in the event of rising volatility. We therefore expect the JPY to appreciate against the USD, and even more so against the EUR and the CHF.

Fair value (FV) GBP/USD



Source: Bloomberg, Credit Suisse / IDC, Datastream

(16/02/2017)

Asset allocation

	Bench-mark	Previous month	---	--	-	0	+	++	+++	Comment
Liquidity	**5.0%**				**2%-4%**					**Below benchmark liquidity allocation, given alternative investment overweight, and neutral position in equities and fixed-income.**
Bonds total	**40.0%**					**39.0%-41.0%**				**Neutral overall. We favor investment-grade bonds, EM debt, and convertibles over government bonds.**
Bonds CHF	**24.0%**				**22%-23.5%**					**Underweight on core bonds, in order to enable an overweight of emerging-market bonds and convertibles.**
Bonds core* (ex CHF)	**8.0%**					**7.5%-8.5%**				
Bonds EUR	2.3%				0.3%-1.8%					Given tight valuations, the recent rise in inflation numbers and better economic momentum, we see a risk of higher EUR yields.
Bonds GBP	0.5%						1%-2.5%			Fiscal concerns balanced by depressed growth outlook, and inflation expectations already highly discounted.
Bonds USD	3.6%					3.1%-4.1%				Risk of a repricing of Fed expectations is higher after the recent decline in real yields. At the same time, more volatile risk sentiment is balancing this risk.
Bonds CAD	0.2%					0%-0.7%				Relative performance should remain closely linked to energy prices. Value pointing to a neutral stance.
Bonds JPY	1.3%					0.8%-1.8%				The new yield curve control component of the BoJ policy should keep yields close to target.
Bonds AUD	0.1%	0%-0.6%					0.6%-2.1%			The highest carry and best value among majors.
Bonds non-core*	**8.0%**						**8.5%-10%**			**Overweight given out-of-benchmark position in convertibles next to EM overweight**
Bonds high yield	4.0%					3.5%-4.5%				Valuations clearly negative, with energy and other cyclical sectors looking vulnerable. Nevertheless, carry compensates risk for now.

Bonds non-core*	**8.0%**						**8.5%-10%**			**Overweight given out-of-benchmark position in convertibles next to EM overweight**
Bonds emerging markets	4.0%						4.5%-6%			Value less tight than for HY. Sovereign bonds preferred.
Bonds convertibles	0.0%						0%-2%			After a significant underperformance last year, investment-grade convertibles offer attractive diversification benefits within fixed income.
Equities total	**30.0%**					**29%-31%**				**We are keeping global equities at neutral.**
Swiss equities	**10.0%**						**10.5%-12%**			**Swiss equities offer the most attractive valuations of all the regions on a relative basis.**
Other equities	**20.0%**				**17%-19%**					
Equities Eurozone	2.0%					1.5%-2.5%				Weaker EUR and current economic momentum should support equities, but political uncertainties and financials remain risks.
Equities Great Britain	1.4%				0%-0.9%					Weak GBP and good economic momentum have pushed earnings expectations higher, but inflation and Brexit risks must be watched.
Equities USA	10.0%					9.5%-10.5%				While economic momentum remains positive, valuations are stretched.
Equities Canada	0.7%					0.2%-1.2%				Commodities are the main drivers, hence our neutral view.
Equities Japan	1.4%				0%-0.9%					We expect the JPY to strengthen, which would weigh on equities.
Equities Australia	0.5%						1%-2.5%			Technical indicator is positive. Should also benefit from our positive view on China.
Equities emerging markets	4.0%					3.5%-4.5%				Even though the fundamentals are improving, EMs are vulnerable to risks related to trade friction and a higher USD.
Alternative investments	**10.0%**						**11.0%-13.0%**			**Overweight overall, given the neutral position in commodities and overweight in hedge funds.**
Commodities	2.5%					2.0%-3.0%				Commodities neutral amid diverging individual backdrops.
Private equity	2.5%					2.0%-3.0%				
Hedge funds*	5.0%						5.5%-7.0%			Favor equity strategies with low net exposure, fixed income arbitrage, and global macro strategies.
Real estate	**15.0%**					**14%-16%**				**We remain neutral overall on global listed real estate.**
Swiss real estate	12.0%					11.5%-12.5%				Defensive qualities, but mature underlying real estate markets.
Other real estate	3.0%					2.5%-3.5%				
Currencies										
CHF	72.0%				69%-71%					Neutral view on CHF, but lower allocation to cash leads to a lower CHF exposure.
Other currencies	28.0%						29%-31%			
Duration bonds CHF	**6.5**					**6.25-6.75**				**Neutral duration.**
Duration bonds EUR	**6.1**					**5.85-6.35**				**Neutral duration.**
Duration bonds USD	**5.5**					**5.25-5.75**				**Neutral duration.**
			---	**--**	**-**	**0**	**+**	**++**	**+++**	
Single asset class rules**			< -4.0%	-2.0% - -4.0%	-0.5% - -2.0%	+/- 0.5%	+0.5% - +2.0%	+2.0% - +4.0%	> +4.0%	
Aggregated asset class rules**			< -5.0%	-3.0% - -5.0%	-1.0% - -3.0%	+/- 1.0%	+1.0% - +3.0%	+3.0% - +5.0%	> +5.0%	

*hedged in CHF; **absolute deviation from benchmark weighting

Note: Aggregate asset class: cash, bonds total, equities total, alternative investments, real estate, currencies (CHF, others)

Source: Credit Suisse

Special focus

Fixed income strategies to strengthen your portfolio

- Under its own impetus, the global economy should grow sustainably in the coming months, putting only moderate upward pressure on inflation while yields stabilize. At the same time, political uncertainties are threatening to make themselves felt in financial markets.
- Fixed income investors should seek diversification within asset classes and look for sources of return not only in different segments and regions but also via various alternative approaches to investing.

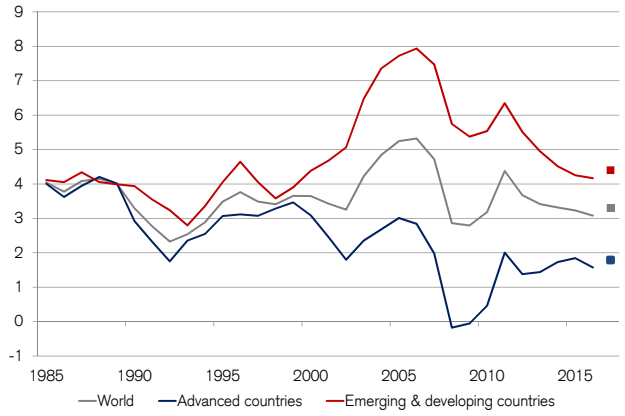
Luc Mathys
Head Fixed Income – Asset Management

Last year brought us the Brexit-vote and the now-ongoing and uncertain process of extricating the UK from the EU. It also brought us the election of Donald Trump, who since his inauguration as US president has lived up to expectations of taking a new approach to his office. These and other events have contributed to a palpable sense among investors that old paradigms are shifting, and that this could cause volatility in economic indicators, interest rates and markets. At the same time, many signals coming from the global economy and financial markets in late 2016 and early 2017 have been encouraging. Yields have eased away from their lowest levels, and should remain stable, and we believe solid growth momentum in the major advanced economies is likely to continue at a pace that does not put severe upward pressure on prices. Any successful investment solution must strike a balance between looming uncertainty and apparent stability.

The fixed income environment

Global growth should improve somewhat in 2017 but remain well below pre-crisis levels with pronounced differences between regions and countries. Commodity price stabilization in 2016 suggests that inflation should edge higher, most significantly in the USA, which may lead the Federal Reserve to cautiously raise rates further. Other central banks should remain more accommodative. The biggest challenge investors face in 2017 is to find yield at a reasonable risk. Investment-grade credit spreads are tight relative to the leverage that high credit-quality corporations have built up in recent years.

Chart 1: Global growth to be marginally higher in 2017
Real GDP growth of global economy and major regions (in %, PPP-weighted)



Last data point: 2017 (forecast). Source: International Monetary Fund, Credit Suisse

Fixed income investors have been living in a brave new world for some time with the low-yield environment taking its toll on many portfolios over the past years. Traditional fixed income approaches have lost much of their attractiveness as investors are pushed into longer-dated and lower-rated bonds in their quest for returns. This is associated with additional risk, which is then even further exacerbated by lower liquidity and increased correlations within the fixed income universe, as well as with other asset classes.

However, like animals in the wild that come under pressure from a changing environment, fixed income has had to adapt in order to survive and thrive, and innovation has broadened the spectrum of possible solutions. A number of interesting approaches are now available to investors that can meet expected challenges, such as absolute return elements to counter high correlations or a systematic focus on short duration to lower interest-rate sensitivity.

Short duration to counter volatile rates

Duration measures a bond's sensitivity to interest rates – the higher the duration, the more sensitive the bond is to changes in interest rates. With bond prices inversely related to interest

rates, and with the latter set to rise, short-duration corporate bonds (typically with maturities of one to three years) could be an attractive investment solution.

There is still much debate about the exact pace of monetary policy normalization. Regardless of how quickly or slowly interest rates rise, short-duration bonds could suit many investors. If interest rates remain low for an extended period, short-duration bonds may be an appropriate investment for those who have excess cash reserves. If interest rates begin to rise, short-duration bonds may be a good choice for investors who have the majority of their fixed income allocation in longer-term bonds.

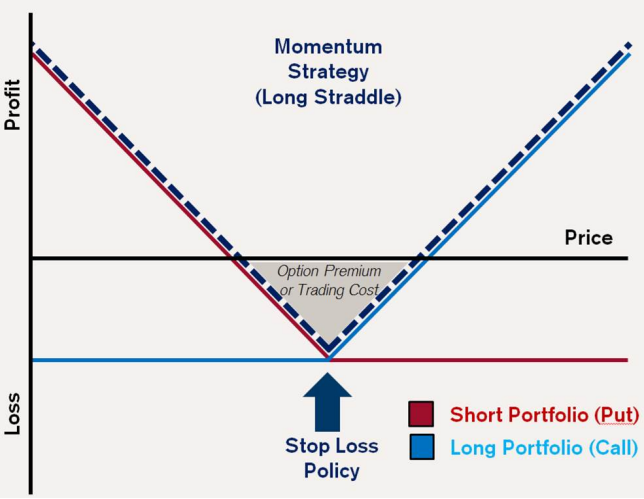
In the past, bonds offered coupons that were often high enough to offset price changes during periods of rising interest rates. However, current coupons do not offer decent levels of income or protection anymore. Short-duration bonds offer price stability and low volatility by their lower sensitivity to interest rate moves – an attribute that may be at a premium in the coming months.

As carry fails, follow the trend

In an environment where investors are crowded in carry-maximizing strategies with a structural long duration or credit risk exposure, uncorrelated fixed income strategies are needed.

Trend-following strategies are based on the assumption – which is also due to behavioral issues such as herding – that assets that have performed in the past will also perform in the future, and those that underperformed will continue to do so. A trend-following strategy therefore aims to replicate a pay-out profile similar to a long straddle option strategy (long call and long put option), taking advantage of the mechanics of the long and short positions, which benefit from up-and-down-trending markets but have a stop-loss policy in place to limit losses in adverse or sideways-moving markets.

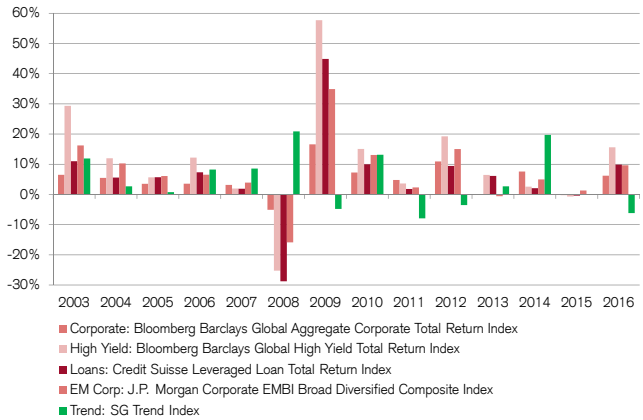
Chart 2: Trend-following strategies aim to replicate the pay-out profile of a long straddle option



Source: Credit Suisse

Studies have convincingly demonstrated the ability of trend-following strategies to generate attractive returns and even exhibit strong performance in markets with large drawdowns in bonds and equity markets. This is due to the gradual nature of many market corrections, rather than an abrupt correction over a very short time period.

Chart 3: Performance of trend and carry strategies



Source: Bloomberg, Credit Suisse / IDC

In other words, trend-following strategies seem to be positively correlated to increasing volatility, which is what we expect over the coming months, and is the exact opposite for carry-based strategies. A trend-following strategy performs best in a trending price environment, independent of a down or uptrend. This advantage, relative to a long-only strategy comes with the price tag of an underperformance in sideways moving markets, where option premiums have to be paid and the stop loss policy is costly. However, as today investors already have plenty of exposure to carry strategies that perform strongly in sideways moving markets, adding trend following strategies enhances portfolio efficiency by offsetting portfolio losses while not reducing the ability to generate returns.

The long and the short of it...

Alternative fixed income funds that can access all areas of the fixed income space, including derivatives, are able to profit from low and even negative rates, and to benefit from diverging valuations between different markets. In addition, with market volatility likely to persist or perhaps even rise, funds that have the flexibility to go both long and short can generate sustainable positive returns in all market situations.

Long/short strategies allow funds to generate returns by combining fixed income instruments without being obliged to take on directional market risks. The ability to implement covered short positions via short sales of securities, as opposed to solely via derivatives, offers investors access to risk premiums that may remain hidden otherwise.

In the Swiss market in particular, this also generates convergence opportunities, which refer to the diverging relative pricing of closely-related fixed income instruments. Examples of this are the combination of a cash bond with a credit default swap, or a long and a short position in two bonds of the same issuer. Funds that have access to all areas of the fixed income market can exploit these opportunities.

Meet high correlations and low yields head-on

The difficult environment for fixed income has forced investors to remain flexible, and the solution-providers to seek new ways of generating returns. Alongside the approaches mentioned above, which primarily seek opportunity via methodological solutions, the market can also be segmented geographically, by rating or by type. By concentrating on emerging markets or on certain regions such as Asia, specific sources of return can be tapped. Convertible bonds can benefit from moves in equity markets although high-yield bonds have lost some of their luster recently due to spread-tightening.

Chart 4: High-yield credit spreads tightening
Five years rolling

Last data point: 11/01/2017. Source: Bloomberg, Credit Suisse / IDC

We see the biggest risk of today's fixed income environment in the reliance on investment strategies that are entirely biased toward carry-related investments with low liquidity and high potential correlation in times of market stress. The approaches listed above offer opportunities to diversify a fixed income portfolio and to access new sources of return. As ever in uncertain times, diversification remains the cornerstone of a rational and prudent investment strategy. (17/02/2017)

Alternative ideas

The impact of e-tailing on the property market

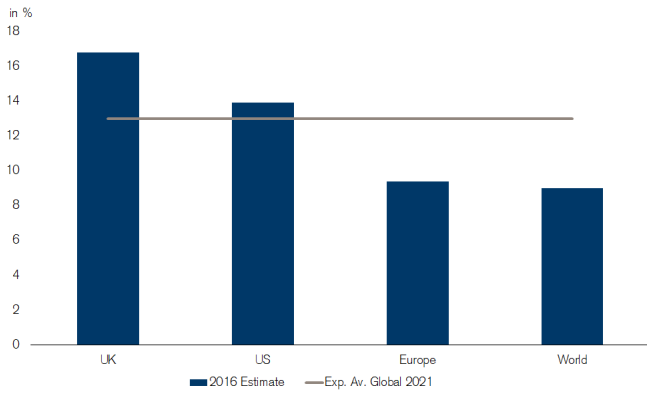
- As e-commerce continues to expand, the performance of bricks and mortar retail assets is coming under pressure.
- Online businesses require significantly less retail space, but more good-quality industrial estates and logistics.

Jelena Kucenko
Global Real Estate Research

Growing importance of e-commerce

With double-digit growth rates, e-commerce accounts for the majority, if not all, of the sales growth for many retailers globally. In fact, whilst global retail sales are estimated to have grown by c. 6% in 2016, online sales expansion was over 20%, according to eMarketer. Regionally, "e-tail" growth is strongest in Asia, particularly in China, where it rose by 26% in 2016 – significantly ahead of the USA (c. 14%) and Europe (c. 17%). Interestingly, the UK, Germany and France have accounted for the most of the expansion in Europe, contributing 81.5% to the total. As technological improvements continue to tilt the bargaining power towards the consumer by allowing easy price comparisons, it is difficult to see how the trend in growth can be reversed. Therefore, it comes as no surprise that current levels of online penetration are expected to accelerate from 9% to 13% by 2021, according to Euromonitor International.

Online retail sales (goods) % of total

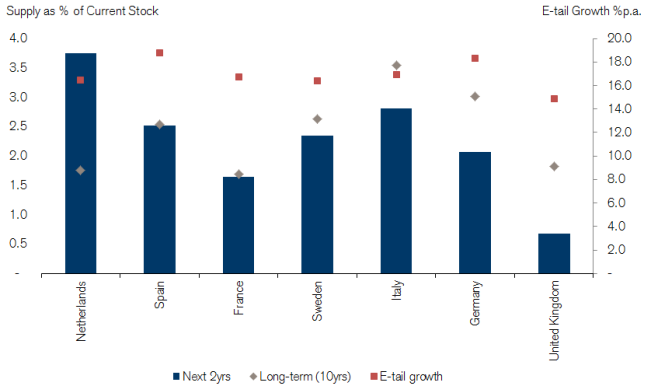


Source: ONS, Centre for Retail Research

Secondary retail locations the first to suffer

It appears that strong growth in online sales is here to stay, suggesting that the retail sector should continue to suffer from a structural change. Retailers shifting their focus from in-store to online means less physical space is required, with undesired locations suffering most. Indeed, if the online penetration rate in Europe converges towards that of the UK and the USA, e-commerce could channel over half of retail sales away from the physical market. Locations combining strong online sales growth expansion with at or above historical levels of supply are the most vulnerable. In Europe, the Netherlands is likely to be the country most affected, given e-tail growth at 16.5% and shopping center supply above its 10-year average as a percentage of stock (Figure 2). Spain, France and Italy all have close to average supply pipelines, whilst demand is weaker due to a high growth in online sales (an average of 17.5%). Conversely however, the main trend-setters – "pure-play" retailers such as Amazon and eBay – are looking to expand their in-store presence. Therefore, increasing demand for convenience and pick-up stores is likely. Even so, we believe that retailers, both in-store and online, will continue to be selective in their space and target requirements, choosing only the strongest locations that are underpinned by robust local economies.

Shopping center supply in Europe as % of current stock and e-tail growth (%)



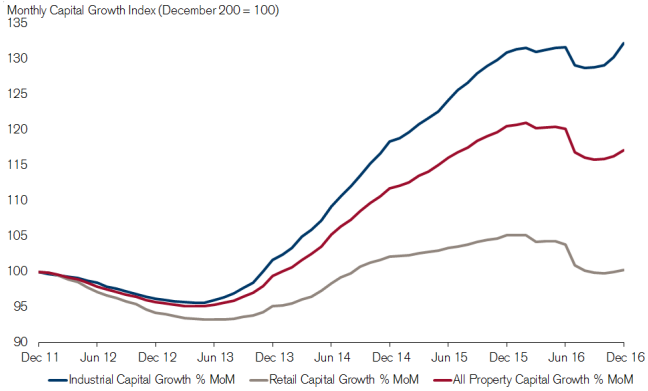
Source: PMA, Credit Suisse

UK industrials benefit from growing e-tail

As anecdotal evidence suggests, an online retailer is likely to use a third of the retail space that a conventional retailer would use, and three times more logistics space. The industrial sector should therefore benefit. Taking the example of the UK – which has the highest e-tail penetration ratio – its industrial market has boomed in the past two years, despite economic and political uncertainties. Growth in occupational demand has

mainly been driven by retailers, accounting for c. 45% of total take-up in 2016. According to Savills, distribution warehouse supply in the UK now equates to only 14 months, which is very low by historical standards. Although industrial supply is elastic, as it can take less than a year to build an estate, the availability of land for industrial use has been eroded. With allocations to higher value uses (such as residential) often preferred, industrial supply struggles to satisfy increased levels of demand. As a result, UK industrials have proven to be Brexit-proof, and have outperformed retail as well as the broader property market (Figure 3).

Industrial capital growth in UK ahead of property market



Source: IPD, Credit Suisse

EU industrials are likely to perform well

If e-tailing in the EU converges towards the levels of the UK and the USA, further gains in industrial markets are likely. A recent Financial Times analysis suggests that for every EUR 1.2 bn spent online, retailers require an additional 86,000 square meters of warehouse space. As Europe's e-commerce sales in 2016 were up by c. 16.7% year-on-year, equating to an approximate growth of EUR 33.5 bn, a naive interpolation of 16.7% for another year suggests an additional EUR 36.1 bn spent online, and implies a further space requirement of 2.6 million square meters, which represents about a third of the industrial take-up of both Germany and France. Similarly to the UK, Europe has experienced strong industrial demand, with c. 40% driven by e-commerce and retail operators. As current industrial developments in Europe are largely built-to-suit, the impact on vacancy rates remains benign, with rents likely to continue to rise.

Strategic implications for direct real estate investments

Although we believe that the retail sector in developed property markets is likely to struggle, strategies that complement the rise in click-and-collect can add value. Assets that can help improve the last mile network, i.e. delivery of goods from the shops to consumers, should perform well. Therefore, properties with a potential to be converted into pick-up points and located near transport exchanges in capital cities or local affluent suburban areas should be considered. By contrast, the industrial sector is likely to remain buoyant due to growing demand and high alternative land value uses. This is not only true for the UK, but also for densely populated areas in Europe and other developed economies. Requirements are likely to be dominated by good quality "big box" distribution warehouses, and smaller industrial estates ready to facilitate quick delivery. We believe that the assets located close to transport nodes, large cities, and dominant centers, should benefit the most.

(16/02/2017)

Food for thought

Getting over globalization

- Globalization may be at an end, and a trend toward a multipolar world has already been established.
- These "poles" could set up a coordination body to help minimize trade disputes.

Michael O'Sullivan
Chief Investment Officer – International Wealth Management

Globalization is synonymous with many things – rising wealth in emerging economies, the socio-economic impact of technology, the spread of new ideas, and of course, the World Economic Forum in Davos. Yet such is the poor health of globalization that one might wonder whether this year's deliberations were akin to Marie Antoinette's bread policy discussions.

Globalization as we have come to know it – the interdependence and interconnectedness of economies, societies, polities and organizations – has come to an end. The political events of 2016 have firmly put paid to it.

Credit Suisse's gauge of globalization has been at a high level but faltering for the past three years, and some of its component parts – notably trade – have looked decidedly shaky. To sustain globalization in its current form, which is where the debate on the topic appears to be centered, would require several near-miraculous policy steps. There would be an onus on pro-globalization political leaders to develop a tangible narrative on it benefits, followed by actions that might better distribute them. This part could be controversial – the possibility of "taxes on technology" or levies on monopolies would be an attention-grabbing means of turning public opinion.

In more substantial terms, a new imaginative trade round would need to be launched, possibly encompassing the implications of Brexit, the USA's desire to recast the North American Free Trade Agreement (NAFTA), and the cementing of more stable trade relations between Japan and China.

Realistically, attempts to relaunch "globalization as we know it" may struggle in the face of entrenched skepticism over its benefits and the reality that demography, indebtedness and to a large degree productivity weaknesses are likely to persist and hold down the trend rate of growth.

It may well be better that those who have grown fond of globalization accept its passing and begin to adjust to a new reality, which could take two new forms. One dangerous and thankfully still improbable scenario is that we witness the outright end of globalization in much the same manner as the first period of globalization ended in 1913. But with apologies to those who evoke the possibility of a conflict in the South China Sea, such scenarios are outlier-type events.

Instead, the evolution of the world order toward a fully multi-polar world – one of regions that are distinct in terms of their economies, laws, cultures, and security networks – is now manifestly under way.

However, multi-polarity is prone to policy errors, rivalries, and geopolitical tensions, particularly in its adolescent phase. It may be better to attempt to establish a set of rules and appropriate institutions initially, to frame multi-polar stability. This initiative could take several forms – for instance, an international cyber-security agreement that follows the nuclear arms control agreements of the 1980s.

In the absence of new global trade agreements, the major "poles" (the USA, the EU, Japan, India, and China) could set up a trade coordination body to help minimize trade disputes and bring countries together to cooperate on trade-based initiatives, such as China's "One Belt One Road" project. There are also several areas where poles may compete – one is in financial market deepening, where the USA may pursue a more intense dollarization of economies in the Middle East and Latin America, with the Eurozone, Japan, the UK, and China all fighting to establish themselves as financial market centers.

The existence of three or four large "poles" could be accompanied by the creation of formal and informal coalitions between medium-sized and smaller states. For example, we may see the creation of a formal network of small open-economy developed countries to exchange policy and create a "voice" for smaller nations.

20th century international institutions should also be scaled back. The World Bank and the World Trade Organization, to name but two, may find themselves defunct in this new landscape and may need to be recast as much smaller, regionally-focused bodies (along the lines of the Asian Infrastructure Investment Bank). Similarly, the United Nations may find that some of its activities such as health and education remain valued, but that its Security Council and peace-keeping missions are less popular and fade into disuse.

Compared to the USA and China, Europe will have the greatest challenge in terms of being able to present a unified policy and voice on economic, financial, and diplomatic issues. A senior, heavyweight EU foreign minister will be required, backed by a credible EU defense strategy and army. In finance, Europe may push ahead with the establishment of a EU Treasury and the completion of a Eurozone framework.

With President Donald Trump now installed in the White House, Davos 2017 may well mark the end of globalization and its gradual replacement by a world where very distinct poles are forming – economic, social, ethical, and political. The quicker the policy-makers accept this, the greater the focus can be on building a more stable multi-polar framework.

(17/02/2017)

Forecast summary

Forecast summary

More information on the forecasts and estimates is available on request. Past performance is not an indicator of future performance. Performance can be affected by commissions, fees or other charges, as well as exchange rate fluctuations.

Short interest rates 3M Libor / 10-year government bonds

	3M Libor			10Y		
in %	Spot	3M	12M	Spot	3M	12M
CHF	-0.73	-0.9 to -0.7	-0.9 to -0.7	-0.12	-0.1 to 0.1	-0.1-0.1
EUR*	-0.33	-0.4 to -0.2	-0.4 to -0.2	0.30	0.4-0.6	0.5-0.7
USD	1.05	0.9 to 1.1	1.4 to 1.6	2.41	2.4-2.6	2.4-2.6
GBP	0.36	0.3 to 0.5	0.3 to 0.5	1.21	1.1-1.3	1.2-1.4
AUD	1.78	1.6 to 1.8	1.3 to 1.5	2.80	2.6-2.8	2.8-3.0
JPY	-0.02	-0.1 to 0.1	-0.1 to 0.1	0.09	0.0-0.2	0.0-0.2

Spot rates are closing prices as of 17/2/2017. Forecast date: 10/2/2017. *3M Euribor, **3M Bank Bill rates.

Source: Bloomberg, Credit Suisse

Equities

Index	Spot	P/E	Div. y. (%)	3M*	12M*
MSCI AC World**	1014	16.1	2.7	995	990
US S&P 500	2351	17.8	2.4	2,285	2,230
Eurostoxx 50	3309	13.9	4.1	3,215	3,115
UK FTSE 100	7300	14.7	4.1	7,135	6,880
Japan Topix	1545	14.4	1.9	1,470	1,430
Australia S&P/ASX 200	5806	16.0	4.1	5,790	5,675
Canada S&P/TSX comp	15839	16.6	2.7	15,500	15,135
Switzerland SMI	8506	16.6	3.4	8,600	8,500
MSCI Emerging markets**	108044	12.2	2.6	106,800	106,500

Prices as of 17/2/2017 . *Forecast as on 10/2/2017 . **Gross return (incl. dividends).

Source: Credit Suisse / IDC, Bloomberg, Datastream

Commodities

	Spot	3M*	12M*
Gold (USD/oz)	1239	1200	1250
Silver (USD/oz)	18.06	16	17
Platinum (USD/oz)	1003	950	950
Palladium (USD/oz)	778.8	750	800
Copper (USD/ton)	5952	5800	5600
WTI Crude Oil (USD/bbl)	53.40	53	55
Bloomberg Commodity index	178.3	176	184

Spot rates are closing prices as of 17/2/2017 *forecast as on 10/2/2017

Source: Bloomberg, Credit Suisse / IDC

Credit: Selected indices

	Yield (%)	Spread (bp)	Duration (years)	3M forecast*	12M forecast*
BC IG Corporate EUR	0.9	122	5.3	-0.2%	-0.9%
BC IG Corporate USD	3.3	119	7.4	0.2%	0.8%
CS LSI ex-govt. CHF	-0.1	45	6.4	-0.4%	-0.9%
BC High Yield Corp USD	5.8	377	4.0	0.5%	3.0%
BC High Yield Pan EUR	3.9	356	4.1	0.3%	1.7%
JPM EM hard curr. USD	5.8	339	7.5	0.8%	3.5%
JPM EM local curr. hedg. USD	6.7	n.a.	4.9	1.1%	4.5%

BC = Barclays Capital, IG= Investment Grade, CS = Credit Suisse, JPM = JP Morgan (EMBI+ and GBI Gl. Div). Index data as 17/2/2017 . *Forecast as on 10/2/2017

Source: Credit Suisse / IDC, Bloomberg

Foreign exchange

	Spot	3M	12M
EUR/USD	1.0616	1.03	1.00
USD/CHF	1.0026	1.03	1.09
EUR/CHF	1.0644	1.06	1.09
USD/JPY	112.84	105	100
EUR/JPY	119.81	108	100
EUR/GBP	0.8561	0.79	0.77
GBP/USD	1.2412	1.30	1.30
AUD/USD	0.7664	0.74	0.74
USD/CAD	1.3096	1.37	1.37
EUR/SEK	9.4589	9.40	9.20
EUR/NOK	8.8527	8.70	8.50
EUR/PLN	4.3336	4.30	4.30
USD/CNY	6.8665	7.00	7.30
USD/SGD	1.4185	1.45	1.48
USD/KRW	1146.3	1180	1220
USD/INR	67.020	67.0	67.0
USD/BRL	3.0978	3.15	3.20
USD/MXN	20.429	20.6	21.3

Spot rates are closing prices as of 17/2/2017

Source: Bloomberg, Credit Suisse

Real GDP growth and inflation

	GDP growth			Inflation		
in %	2016	2017	2018	2016	2017	2018
CH	1.5	1.5	1.7	-0.4	0.5	0.5
EMU	1.7	1.6	1.5	0.2	1.2	1.3
USA	1.6	2.0	2.3	1.3	2.3	2.5
UK	2.1	1.5	1.5	0.7	2.3	2.0
Australia	2.4	2.6	2.7	1.2	1.5	1.8
Japan	1.0	1.2	1.0	-0.2	0.5	0.4
China	6.7	6.5	6.0	2.0	2.2	1.9

Forecast date: 25/1/2017.

Source: Credit Suisse

(20/02/2017)

Glossary

Risk warnings

Market risk	Financial markets rise and fall based on economic conditions, inflationary pressures, world news and business-specific reports. While trends may be detected over time, it can be difficult to predict the direction of the market and individual stocks. This variability puts stock investments at risk of losing value.
Bond risks	Investors are exposed to interest rates, currency, liquidity, credit market and issuer fluctuations, which may affect the price of bonds.
Emerging markets	Emerging markets are located in countries that possess one or more of the following characteristics: a certain degree of political instability, relatively unpredictable financial markets and economic growth patterns, a financial market that is still at the development stage or a weak economy. Emerging market investments usually result in higher risks as a result of political, economic, credit, exchange rate, market liquidity, legal, settlement, market, shareholder and creditor risks.
Hedge funds	Regardless of structure, hedge funds are not limited to any particular investment discipline or trading strategy, and seek to profit in all kinds of markets by using leverage, derivative instruments and speculative investment strategies that may increase the risk of investment loss.
Commodity investments	Commodity transactions carry a high degree of risk and may not be suitable for many private investors. The extent of loss due to market movements can be substantial or even result in a total loss.
Real estate	Investors in real estate are exposed to liquidity, foreign currency and other risks, including cyclical risk, rental and local market risk as well as environmental risk, and changes to the legal situation.
Currency risks	Investments in foreign currencies involve the additional risk that the foreign currency might lose value against the investor's reference currency.
Equity risk	Equities are subject to market forces and hence fluctuations in value, which are not entirely predictable.

Explanation of indices frequently used in reports

Index	Comment
Australia S&P/ASX 200	S&P/ASX 200 is an Australian market-capitalization-weighted and float-adjusted stock index calculated by Standard and Poor's.
BC High Yield Corp USD	The US Corporate High Yield Index measures USD-denominated, non-investment grade, fixed-rate and taxable corporate bonds. The index is calculated by Barclays.
BC High Yield Pan EUR	The Euro Corporate Index tracks the fixed-rate, investment-grade, euro-denominated corporate bond market. The index includes issues that meet specified maturity, liquidity and quality requirements. The index is calculated by Barclays.
BC IG Corporate EUR	The US Corporate Index tracks the fixed-rate, investment-grade, dollar-denominated corporate bond market. The index includes both US and non-US issues that meet specified maturity, liquidity and quality requirements. The index is calculated by Barclays.
BC IG Corporate USD	The IG Financials Index tracks the fixed-rate, investment-grade, dollar-denominated financials bond market. The index includes both US and non-US issues that meet specified maturity, liquidity and quality requirements. The index is calculated by Barclays.
Canada S&P/TSX comp	The S&P/TSX composite index is the Canadian equivalent of the S&P 500 Index in the USA. The index contains the largest stocks traded on the Toronto Stock Exchange.
Consumer Confidence Indices	Consumer Confidence Indices (CCIs) are based on surveys of consumers' spending intentions and economic situations, as well as their concerns and expectations for the immediate future.
CS Hedge Fund Index	The Credit Suisse Hedge Fund Index is compiled by Credit Suisse Hedge Index LLC. It is an asset-weighted hedge fund index and includes only funds, as opposed to separate accounts. The index reflects performance net of all hedge fund component performance fees and expenses.
CS LSI ex govt CHF	The Liquid Swiss Index ex govt CHF is a market-capitalized bond index representing the most liquid and tradable portion of the Swiss bond market excluding Swiss government bonds. The index is calculated by Credit Suisse.
DAX	The German Stock Index stock represents 30 of the largest and most liquid German companies that trade on the Frankfurt Exchange.
DXY	A measure of the value of the US dollar relative to the majority of its most important trading partners. The US Dollar Index is similar to other trade-weighted indices, which also use the exchange rates from the same major currencies.
Eurostoxx 50	Eurostoxx 50 is a market-capitalization-weighted stock index of 50 leading blue-chip companies in the Eurozone.
FTSE EPRA/NAREIT Global Real Estate Index Series	The FTSE EPRA/NAREIT Global Real Estate Index Series is designed to represent general trends in eligible real estate equities worldwide.
Hedge Fund Barometer	The Hedge Fund Barometer is a proprietary Credit Suisse scoring tool that measures market conditions for hedge fund strategies. It comprises four components: liquidity, volatility; systemic risks and business cycle.
Japan Topix	TOPIX, also known as the Tokyo Stock Price Index, tracks all large Japanese companies listed in the stock exchange's "first section." The index calculation excludes temporary issues and preferred stocks.
JPM EM hard curr. USD	The Emerging Market Bond Index Plus tracks the total return of hard-currency sovereign bonds across the most liquid emerging markets. The index encompasses US-denominated Brady bonds (dollar-denominated bonds issued by Latin American countries), loans and Eurobonds.
JPM EM local curr. hedg. USD	The JPMorgan Government Bond Index tracks local currency bonds issued by emerging market governments across the most accessible markets for international investors.
MSCI AC Asia/Pacific	The MSCI All Country Asia Pacific Index captures large and mid cap representation across 5 developed market countries and 8 emerging markets countries in the Asia Pacific region. With 1,000 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

MSCI AC World	The MSCI All Country World Index captures large and mid cap representation across 23 developed markets and 23 emerging market countries. With roughly 2480 constituents, the index covers around 85% of the global investable equity opportunity set.
MSCI Emerging Markets	MSCI Emerging Markets is a free-float-weighted Index designed to measure equity market performance in global emerging markets. The index is developed and calculated by Morgan Stanley Capital International.
MSCI EMU	The MSCI EMU Index (European Economic and Monetary Union) captures large and mid cap representation across the 10 Developed Markets countries in the EMU. With 237 constituents, the index covers approximately 85% of the free float-adjusted market capitalization of the EMU.
MSCI Europe	The MSCI Europe Index captures large and mid cap representation across 15 developed markets countries in Europe. With 442 constituents, the index covers approximately 85% of the free float-adjusted market capitalization across the European developed markets equity universe.
MSCI UK	The MSCI United Kingdom Index is designed to measure the performance of the large and mid cap segments of the UK market. With 111 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in the UK.
MSCI World	MSCI World is an index of global equity markets developed and calculated by Morgan Stanley Capital International. Calculations are based on closing prices with dividends reinvested.
OECD Composite Leading Indicators	OECD Composite Leading Indicators (CLIs) are designed to provide early signals of turning points in business cycles with components that measure early stages of production, respond to changes in economic activity, and are sensitive to expectations of future activity.
Purchasing Managers' Indices	Purchasing Managers' Indices (PMIs) are economic indicators derived from monthly surveys of private-sector companies. The two principal producers of PMIs are Markit Group, which conducts PMIs for over 30 countries worldwide, and the Institute for Supply Management (ISM), which conducts PMIs for the United States. The indices include additional sub-indices for manufacturing surveys such as new orders, employment, exports, stocks of raw materials and finished goods, prices of inputs and finished goods, and services.
Russell 1000 Growth Index	The Russell 1000 Growth Index measures the performance of the large-cap growth segment of the US equity universe based on 1000 large-cap companies with higher price-to-book ratios and higher forecast growth values.
Russell 1000 Index	he Russell 1000 Index is a stock market index that represents the highest-ranking 1,000 stocks in the Russell 3000 Index (encompassing the 3,000 largest US-traded stocks, with the underlying companies all incorporated in the USA), and representing about 90% of the total market capitalization of that index. The Russell 1000 Index has a weighted average market capitalization of USD 81 billion and the median market capitalization is approximately USD 4.6 billion.
Russell 1000 Value Index	The Russell 1000 Value Index measures the performance of the large-cap value segment of the US equity universe based on 1000 large-cap companies with lower price-to-book ratios and lower expected growth values.
Switzerland SMI	The Swiss Market Index is made up of 20 of the largest companies listed of the Swiss Performance Index universe. It represents 85% of the free-float capitalization of the Swiss equity market. As a price index, the SMI is not adjusted for dividends.
UK FTSE 100	FTSE 100 is a market-capitalization-weighted stock index that represents 100 of the most highly capitalized companies traded on the London Stock exchange. The equities have an investibility weighting in the index calculation.
US S&P 500	Standard and Poor's 500 is a capitalization-weighted stock index representing all major industries in the USA, which measures the performance of the domestic economy through changes in the aggregate market value.

Abbreviations frequently used in reports

Abb.	Description	Abb.	Description
3/6/12 MMA	3/6/12 month moving average	IMF	International Monetary Fund
AI	Alternative investments	LatAm	Latin America
APAC	Asia Pacific	Libor	London interbank offered rate
bbl	barrel	m b/d	Million barrels per day
BI	Bank Indonesia	M1	A measure of the money supply that includes all physical money, such as coins and currency, as well as demand deposits, checking accounts and negotiable order of withdrawal accounts.
BoC	Bank of Canada	M2	A measure of money supply that includes cash and checking deposits (M1) as well as savings deposits, money market mutual funds and other time deposits.
BoE	Bank of England	M3	A measure of money supply that includes M2 as well as large time deposits, institutional money market funds, short-term repurchase agreements and other larger liquid assets.
BoJ	Bank of Japan	M&A	Mergers and acquisitions
bp	Basis points	MAS	Monetary Authority of Singapore
BRIC	Brazil, Russia, China, India	MLP	Master Limited Partnership
CAGR	Compound annual growth rate	MoM	Month-on-month
CBOE	Chicago Board Options Exchange	MPC	Monetary Policy Committee
CFO	Cash from operations	OAS	Option-adjusted spread
CFROI	Cash flow return on investment	OECD	Organisation for Economic Co-operation and Development
DCF	Discounted cash flow	OIS	Overnight indexed swap
DM	Developed Market	OPEC	Organization of Petroleum Exporting Countries
DMs	Developed Markets	P/B	Price-to-book value
EBITDA	Earnings before interest, taxes, depreciation and amortization	P/E	Price-earnings ratio
ECB	European Central Bank	PBoC	People's Bank of China
EEMEA	Eastern Europe, Middle East and Africa	PEG	P/E ratio divided by growth in EPS
EM	Emerging Market	PMI	Purchasing Managers' Index
EMEA	Europe, Middle East and Africa	PPP	Purchasing power parity
EMs	Emerging Markets	QE	Quantitative easing

EMU	European Monetary Union	QoQ	Quarter-on-quarter
EPS	Earnings per share	r.h.s.	right-hand side (for charts)
ETF	Exchange traded funds	RBA	Reserve Bank of Australia
EV	Enterprise value	RBI	Reserve Bank of India
FCF	Free cash flow	RBNZ	Reserve Bank of New Zealand
Fed	US Federal Reserve	REIT	Real estate investment trust
FFO	Funds from operations	ROE	Return on equity
FOMC	Federal Open Market Committee	ROIC	Return on invested capital
FX	Foreign exchange	RRR	Reserve requirement ratio
G10	Group of Ten	SAA	Strategic asset allocation
G3	Group of Three	SDR	Special drawing rights
GDP	Gross domestic product	SNB	Swiss National Bank
GPIF	Government Pension Investment Fund	TAA	Tactical asset allocation
HC	Hard currency	TWI	Trade-Weighted Index
HY	High yield	VIX	Volatility Index
IBD	Interest-bearing debt	WTI	West Texas Intermediate
IC	Credit Suisse Investment Committee	YoY	Year-on-year
IG	Investment grade	YTD	Year-to-date
ILB	Inflation-linked bond	Personal Consumption Expenditure (PCE deflator)	An indicator of the average increase in prices for all domestic personal consumption.

Currency codes frequently used in reports

Code	Currency	Code	Currency
ARS	Argentine peso	KRW	South Korean won
AUD	Australian dollar	MXN	Mexican peso
BRL	Brazilian real	MYR	Malaysian ringgit
CAD	Canadian dollar	NOK	Norwegian krone
CHF	Swiss franc	NZD	New Zealand dollar
CLP	Chilean peso	PEN	Peruvian nuevo sol
CNY	Chinese yuan	PHP	Philippine peso
COP	Colombian peso	PLN	Polish złoty
CZK	Czech koruna	RUB	Russian ruble
EUR	Euro	SEK	Swedish krona/kronor
GBP	Pound sterling	SGD	Singapore dollar
HKD	Hong Kong dollar	THB	Thai baht
HUF	Hungarian forint	TRY	Turkish lira
IDR	Indonesian rupiah	TWD	New Taiwan dollar
ILS	Israeli new shekel	USD	United States dollar
INR	Indian rupee	ZAR	South African rand
JPY	Japanese yen		

Important information on derivatives

Pricing	Option premiums and prices mentioned are indicative only. Option premiums and prices can be subject to very rapid changes: The prices and premiums mentioned are as of the time indicated in the text and might have changed substantially in the meantime.
Risks	Derivatives are complex instruments and are intended for sale only to investors who are capable of understanding and assuming all the risks involved. Investors must be aware that adding option positions to an existing portfolio may change the characteristics and behavior of that portfolio substantially. A portfolio's sensitivity to certain market moves can be heavily impacted by the leverage effect of options.
Buying calls	Investors who buy call options risk the loss of the entire premium paid if the underlying security trades below the strike price at expiration.
Buying puts	Investors who buy put options risk loss of the entire premium paid if the underlying security finishes above the strike price at expiration.
Selling calls	Investors who sell calls commit themselves to sell the underlying for the strike price, even if the market price of the underlying is substantially higher. Investors who sell covered calls (own the underlying security and sell a call) risk limiting their upside to the strike price plus the upfront premium received and may have their security called away if the security price exceeds the strike price of the short call. Additionally, the investor has full downside participation that is only partially offset by the premium received upfront. If investors are forced to sell the underlying they might be subject to taxing. Investors shorting naked calls (i.e. selling calls but without holding the underlying security) risk unlimited losses of security price less strike price.
Selling puts	Put sellers commit to buying the underlying security at the strike price in the event the security falls below the strike price. The maximum loss is the full strike price less the premium received for selling the put.
Buying call spreads	Investors who buy call spreads (buy a call and sell a call with a higher strike) risk the loss of the entire premium paid if the underlying trades below the lower strike price at expiration. The maximum gain from buying call spreads is the difference between the strike prices, less the upfront premium paid.

Selling naked call spreads	Selling naked call spreads (sell a call and buy a farther out-of-the-money call with no underlying security position): Investors risk a maximum loss of the difference between the long call strike and the short call strike, less the upfront premium taken in, if the underlying security finishes above the long call strike at expiration. The maximum gain is the upfront premium taken in, if the security finishes below the short call strike at expiration.
Buying put spreads	Investors who buy put spreads (buy a put and sell a put with a lower strike price) also have a maximum loss of the upfront premium paid. The maximum gain from buying put spreads is the difference between the strike prices, less the upfront premium paid.
Buying strangles	Buying strangles (buy put and buy call): The maximum loss is the entire premium paid for both options, if the underlying trades between the put strike and the call strike at expiration.
Selling strangles or straddles	Investors who are long a security and short a strangle or straddle risk capping their upside in the security to the strike price of the call that is sold plus the upfront premium received. Additionally, if the security trades below the strike price of the short put, investors risk losing the difference between the strike price and the security price (less the value of the premium received) on the short put and will also experience losses in the security position if they owns shares. The maximum potential loss is the full value of the strike price (less the value of the premium received) plus losses on the long security position. Investors who are short naked strangles or straddles have unlimited potential loss since, if the security trades above the call strike price, investors risk losing the difference between the strike price and the security price (less the value of the premium received) on the short call. In addition, they are obligated to buy the security at the put strike price (less upfront premium received) if the security finishes below the put strike price at expiration.

Risk warning

Every investment involves risk, especially with regard to fluctuations in value and return. If an investment is denominated in a currency other than your base currency, changes in the rate of exchange may have an adverse effect on value, price or income.

For a discussion of the risks of investing in the securities mentioned in this report, please refer to the following Internet link:
https://investment.credit-suisse.com/gr/riskdisclosure/

This report may include information on investments that involve special risks. You should seek the advice of your independent financial advisor prior to taking any investment decisions based on this report or for any necessary explanation of its contents. Further information is also available in the information brochure "Special Risks in Securities Trading" available from the Swiss Bankers Association.

Past performance is not an indicator of future performance. Performance can be affected by commissions, fees or other charges as well as exchange rate fluctuations.

Financial market risks

Historical returns and financial market scenarios are no guarantee of future performance. The price and value of investments mentioned and any income that might accrue could fall or rise or fluctuate. Past performance is not a guide to future performance. If an investment is denominated in a currency other than your base currency, changes in the rate of exchange may have an adverse effect on value, price or income. You should consult with such advisor(s) as you consider necessary to assist you in making these determinations.

Investments may have no public market or only a restricted secondary market. Where a secondary market exists, it is not possible to predict the price at which investments will trade in the market or whether such market will be liquid or illiquid.

Emerging markets

Where this report relates to emerging markets, you should be aware that there are uncertainties and risks associated with investments and transactions in various types of investments of, or related or linked to, issuers and obligors incorporated, based or principally engaged in business in emerging markets countries. Investments related to emerging markets countries may be considered speculative, and their prices will be much more volatile than those in the more developed countries of the world. Investments in emerging markets investments should be made only by sophisticated investors or experienced professionals who have independent knowledge of the relevant markets, are able to consider and weigh the various risks presented by such investments, and have the financial resources necessary to bear the substantial risk of loss of investment in such investments. It is your responsibility to manage the risks which arise as a result of investing in emerging markets investments and the allocation of assets in your portfolio. You should seek advice from your own advisers with regard to the various risks and factors to be considered when investing in an emerging markets investment.

Alternative investments

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